

The City of Washington Terrace

June 30, 2005

Financial Statements

(With Auditors' Report)

**LITZ &
COMPANY**

*Certified Public Accountants
A Professional Corporation*

THE CITY OF WASHINGTON TERRACE

Table of Contents

	<u>Page</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis	3-10
 Basic Financial Statements	
Government-wide Financial Statements	11
Statement of Net Assets.....	12
Statement of Activities	12
Governmental Funds Statements	13
Balance Sheet	14
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets.....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	16
Proprietary Funds Statements	17
Statement of Net Assets.....	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets	19
Statement of Cash Flows	20-32
Notes to Financial Statements.....	20-32
Budgetary Comparisons - Major Governmental Funds	33-34
General Fund	35
RDA Special Revenue Fund.....	36
Capital Projects.....	36
Combining Balance Sheet - Nonmajor Governmental Funds	37
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Nonmajor Governmental Funds.....	38
Prior Year Comparisons - General Fund	39-40
 Reports	
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	41
Schedule of Findings and Questioned costs.....	42
Status of Prior Year Audit Findings.....	43
Independent Auditors' State Legal Compliance Report	45
Schedule of State Findings and Questioned Costs.....	46

Independent Auditors' Report**Honorable Mayor and City Council
Washington Terrace City**


We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Washington Terrace City as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Washington Terrace City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Washington Terrace City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the basic financial statements that collectively comprise Washington Terrace City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.


November 2, 2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Washington Terrace City Corporation's management presents to the readers of its financial statements this narrative information. It contains an overview and analysis of the financial position and results of operations as of and for the twelve months ended June 30, 2005. As management of the City, we encourage readers to consider information contained in this discussion along with the transmittal letter and notes to the financial statements.

The following is a discussion and analysis of City of Washington Terrace's financial performance and activities for the fiscal year ended June 30, 2005. Beginning in FY 2004, the City implemented new financial reporting standards established by GASB (The Governmental Accounting Standards Board). These new standards significantly changed the content and structure of the financial statements. As a result, much of the information is not easily comparable to years prior to 2004.

FINANCIAL HIGHLIGHTS

At year end, Governmental Activities total assets were \$31,428,192 and liabilities \$8,265,254. The assets of Governmental Activities exceeded its liabilities by \$23,162,938 (net assets). Of this amount, \$20,404,232 is invested in capital assets, net of related debt, \$113,837 restricted for roads, \$176,265 restricted for impact fees, and \$2,468,604 unrestricted.

At year end, Business-Type Activities total assets were \$7,755,199 and liabilities \$3,176,644. The assets of Governmental Activities exceeded its liabilities by \$4,578,555 (net assets). Of this amount, \$4,155,523 is invested in capital assets, net of related debt and \$423,032 is unrestricted.

Total Net Assets increased by \$821,767. Of this amount, 85 percent is a result of Governmental Activities.

The City's Governmental funds reported combined ending fund balance of \$2,488,457 or a decrease of \$818,214 compared to the prior years ending balance. Of the combined total fund balance, \$2,198,355 is unreserved but may be designated for future projects.

The unreserved fund balance of the General Fund at June 30, 2005, totaled \$545,236 or 18 percent of next year's budgeted General Fund revenues (less appropriations of beginning fund balance and transfers from other funds).

During the year, total bonded debt for Governmental Activities decreased by \$598,016. The City refinanced its General Obligation Bonds Series 2000 at a lower interest rate and issued \$3,445,000 in General Obligation Refunding Bonds Series 2005. The advance refunding will reduce the total debt service payments over the next 15 years by \$187,116 resulting in an economic gain of \$323,281. At June 30, 2005, total Governmental Activities outstanding long-term bonds payable were \$7,861,950. Amounts due within one year were \$520,679. Total bonded debt for Business-Type Activities decreased by \$130,000. At year end, total outstanding long-term debt for Business-Type Activities was \$3,100,000. Amounts due within one year were \$135,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the City's basic financial statements that include three components: 1) the government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to the basic financial statements, this report also contains other supplementary information that will help the reader gain a more in depth understanding of the City's financial condition.

The government-wide financial statements are comprised of: 1) the Statement of Net Assets (SNA), and 2) the Statement of Activities (SA). These two statements provide a broad overview of the City's finances.

The SNA reports the overall net assets of the City. Over time, increases and decreases in net assets are one indicator of the City's overall financial position as improving or declining.

The SA helps identify functions of the City that are primarily supported by taxes and other general governmental activity revenue in conjunction with other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). The SA shows the changes to net assets that occurred during the most recent fiscal year. These changes are recorded on an accrual basis when the underlying event that causes the change occurs, regardless of when the cash transaction takes place. One example is the next debt interest payment when the fiscal year ends in between interest payments. The Statement of Activities shows an additional interest expense for the time period between the last interest payment and the end of the fiscal year.

Both of the government-wide financial statements distinguish between activities that are largely supported by taxes and intergovernmental revenues (Governmental Activities) and those whose operations are entirely or largely financed by user charges and fees (Business-Type Activities). The Governmental Activities for the City include general governmental (legislative and executive activities and non-departmental); public safety (Police and Fire), public works/streets and parks/recreation (Public Services). The business-type activities include water, sewer, storm-water, and refuse collection. The government-wide financial statements include not only Washington Terrace City itself (the primary government), but also the legally separate Redevelopment Agency of Washington Terrace. This entity (a component unit) is financially accountable to the City and is presented separately from the primary government itself; but for all practical purposes function as a part of the City and are therefore blended as an integral part of the primary government.

The City Business-Type Activities include operating water, sewer, garbage and storm drain services.

The fund financial statements provide detailed information about individual major funds and not the City as a whole. A fund is a group of related accounts that the City uses to keep track of specific resources that are segregated for a specific purpose. Some funds are required to exist by

law, while other funds are established internally to maintain control over a particular activity. All of the City's funds are divided into two types, each of which uses a different accounting approach. The two types are 1) Governmental Funds and 2) Proprietary Funds.

Governmental Funds – Most of the City's basic services are accounted for in governmental funds. These fund types are essentially the same functions reported as governmental activities in the government-wide financial statements.

Proprietary Funds – The City maintains one type of proprietary fund—an Enterprise Fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City enterprise fund reports all activity related to providing water, sewer, garbage, and storm water services.

Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. At fiscal year ended June 30, 2004, the City dissolved its only internal service fund that accounted for its fleet activities—Motor Pool Fund. All fund assets are now reported in the fund that is the predominate beneficiary—the General or Enterprise Fund.

Differences between Government-Wide and Fund Statements

Capital assets and long-term debt are included on the government-wide statements but are not reported on the governmental fund statements. Capital outlays result in capital assets on the government-wide statements but are expenditures on the governmental fund statements. Certain tax revenues that are earned but not yet available are reported as revenue on the government-wide statements. Those revenues are deferred on the governmental fund statements.

Notes to the Financial Statements

The notes found within these financial statements provide additional schedules and information that are essential to a complete understanding of the financial statements and the City's financial position. The notes apply to both government-wide financial statements and the fund financial statements.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

THE CITY OF WASHINGTON TERRACE							
Multi-Year Comparative Summary of Net Assets							
	Primary Government						Total % Change from prior year
	Governmental		Business-Type		Total		
	Activities		Activities				
	2004	2005	2004	2005	2004	2005	
Current and other assets	3,882,603	3,120,231	579,319	499,676	4,461,922	3,619,907	0.811
Capital assets	27,488,114	28,307,961	7,107,740	7,255,523	34,595,854	35,563,484	1.028
Total Assets	31,370,717	31,428,192	7,687,059	7,755,199	39,057,776	39,183,391	1.003
Long-term debt	7,475,080	7,424,531	2,945,495	2,965,000	10,420,575	10,389,531	0.997
Other liabilities	1,619,861	840,723	284,505	211,644	1,904,366	1,052,367	0.553
Total Liabilities	9,094,941	8,265,254	3,230,000	3,176,644	12,324,941	11,441,898	0.928
Net assets							
Invested in capital assets, net of related debt	19,028,148	20,404,232	5,887,802	4,155,523	24,915,950	24,559,755	0.986
Restricted	553,680	290,102			553,680	290,102	0.524
Unrestricted	2,693,948	2,468,604	(1,430,743)	423,032	1,263,205	2,891,636	2.289
Total Net Assets	22,275,776	23,162,938	4,457,059	4,578,555	26,732,835	27,741,493	1.038

Table 1. Comparative summary of net assets for FY 2004 and 2005 for Governmental and Business-Type Activities

Net Assets

The largest component of the City's net assets for Governmental Activities and Business-Type Activities is reflect in investments in capital assets (including land, buildings, equipment, roads, and infrastructure) less all outstanding debt that was issued to buy or build those assets. As capital assets, these resources are not available for future spending, nor can they all be readily liquidated to pay off the related liabilities. In 2005, Governmental Activities Capital Assets reflect 88% or \$20,404,232 and Business-Type Activities Capital Assets reflect 91% or \$4,155,523 of total net assets. Governmental Activities Restricted net assets for roads of \$113,837 represent 0.5% and for impact fees of \$176,265 represent 0.8% of total net assets. Restricted net assets are subject to external restrictions on how they may be used. The remaining \$2,468,604 or 10.7% of Governmental Activities net assets is unrestricted and may be used at the City's discretion to meet its ongoing obligations to citizens and creditors or designated to complete ongoing projects. Business-Type Activities unrestricted net assets reflect 9% or \$423,032 of total net assets.

Program Expenditures and Revenues by Function

Table 2 (below) shows to what extent that the City's Governmental Activities relied on taxes and other general revenue to cover all their costs. These programs generated revenues of \$988,645 or 27% of their total expenses through charges for services and grants. Taxes and other general revenues fund the remaining 73% of program expenses.

Activities	Total Program Expenditures	Less Program Revenues	Net Program Costs	Program Revenues as a Percentage of Total Expenditures
General government	732,372	435,838	(296,534)	60%
Public Safety	1,065,717	261,187	(804,530)	25%
Highways & Public Works	1,268,005	218,347	(1,049,658)	17%
Parks & Recreation	127,172	73,273	(53,899)	58%
Interest on long-term debt	427,949		(427,949)	0%
Totals	3,621,215	988,645	(2,632,570)	27%

Table 2. Governmental Activities Program Expenditures and Revenues

Business-Type Activities

The Business-type activities (water, sewer, garbage, and storm drain) are generating sufficient revenue to cover operating costs.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Fund Balances

At June 30, 2005, the Governmental Funds reported a combined fund balance of \$2,488,457. Of this amount, \$113,837 or 0.5% is restricted for Class "C" Road projects and \$176,265 or 0.8% is restricted Impact Fees for a specific purposes and projects. The remaining \$2,198,355 or 10.7% is unreserved. Unreserved fund balance includes amounts designated for future projects. Of the unreserved fund balance, \$165,588 is in the Redevelopment Agency Fund, \$1,445,070 is in the Capital Projects Fund, \$42,461 is in other Non-major Governmental Funds, and \$545,236 is in the General Fund.

General Fund Budgetary Highlights

In comparison to the departmental final budgeted expenditures and actuals, expenditures were down \$96,404. The departmental budget-to-actual changes are summarized as follows:

- \$(947) for City Council
- \$(2,444) for Court
- \$(25,111) for Administration
- \$ (387) for Treasurer/Hr/Utility Billing
- \$ (6,277) for Recorder
- \$(4,024) for Leisure Services
- \$(24,192) for Non-Departmental
- \$ (3,188) for Transfers Out
- \$(2,049) for General Government Buildings
- \$(3,637) for Police
- \$39,979 for Fire
- \$(12,776) for Planning and Inspections
- \$(1,831) for Animal Control

- \$(17,946) for Public Works
- \$(36,036) for Streets and Public Improvements
- \$1,274 for Parks

Actual General Fund revenues were \$2,949,878 or 0.3% above the final budgeted revenues. Actual expenditures were \$2,546,158 or 4% below the final budgeted expenditures. It was not necessary for the City to draw upon existing fund balance in the General Fund to cover its expenditures. The above budgetary highlights do not include a General Fund year end fund balance adjustment of \$189,687. Pursuant to the City's Budget Policies and Objectives any amount of fund balance in excess of the legal maximum of 18 percent will be transferred to the Capital Improvements Fund to assist with funding future capital projects. The General Fund transferred \$189,687 to the Capital Projects Fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

THE CITY OF WASHINGTON TERRACE							
Multi-Year Comparative Summary of Capital Assets							
	Primary Government						Total % Change from <u>prior year</u>
	Governmental		Business-Type		Total		
	<u>Activities</u>		<u>Activities</u>				
	2004	2005	2004	2005	2004	2005	
Land	7,906,221	8,304,552	116,813	116,813	8,023,034	8,421,365	5%
Construction in process	-	-	-	348,517	-	348,517	
Buildings	1,675,233	1,947,257	11,364	11,364	1,686,597	1,958,621	16%
Capital Improvements	21,077,232	21,689,359	8,148,941	8,148,941	29,226,173	29,838,300	2%
Machinery and Equipment	613,410	572,261	840,684	851,184	1,454,094	1,423,445	-2%
Less: Accum. Depreciation	(3,783,982)	(4,205,468)	(2,010,062)	(2,221,296)	(5,794,044)	(6,426,764)	11%
Total Assets	27,488,114	28,307,961	7,107,740	7,255,523	34,595,854	35,563,484	3%

Table 3. Governmental and Business-Type Activities 2004 and 2005 Capital Assets Comparative Summary

Capital Assets

At June 30, 2005, the City's investment in capital assets for its Governmental and Business-Type Activities combined totaled \$35,563,484 (net of \$6,426,764 accumulated depreciation) compared to \$34,595,854 (net of \$5,794,044 accumulated depreciation) at June 30, 2004. Capital assets are categorized by five major groups: land, construction in process, buildings, capital improvements, and machinery and equipment. The greatest change in capital assets when comparing FY 2004 and 2005 occurred in Buildings. During FY 2005, the City finished construction of a new City Hall building. The old City Hall building was leveled.

Major capital asset *additions* during the year ended June 30, 2005, included:

Governmental Activities \$2,778,177:

- \$1,336,721 in infrastructure and improvements (RDA Southeast Project)
- \$350,848 in land (Donated)
- \$1,025,717 in buildings (City Hall)
- \$64,891 in machinery and equipment (Fire Department Fleet)

The City sold, disposed, or no longer depreciates capital assets that cost \$1,670,879 for Governmental Activities. Of this amount, 75 percent of the assets disposed were attributed to construction in process.

Business-Type Activities \$326,275:

- \$10,500 in machinery and equipment (Hydraulic Coupler and Clam Bucket)
- \$315,775 in improvements (Golf Course Sewer Outfall Project WIP)

No capital assets were sold, disposed, or no longer depreciates for Business-Type Activities.

Additional information on Capital Assets can be found in the notes to the financial statements.

Long-Term Debt

THE CITY OF WASHINGTON TERRACE Multi-Year Comparative of Debt Outstanding							
	Governmental		Primary Government		Total		Total % Change from prior year
	2004	2005	2004	2005	2004	2005	
General Obligation Bonds	4,560,000	4,705,000			4,560,000	4,705,000	103%
Special Assessment Bonds	1,620,000	1,040,000			1,620,000	1,040,000	-36%
E/F Revenues Bonds			3,230,000	3,100,000	3,230,000	3,100,000	-4%
RDA Bonds	2,279,966	2,116,949			2,279,966	2,116,949	-7%
Total Assets	8,459,966	7,861,949	3,230,000	3,100,000	11,689,966	10,961,949	-6%

Table 4.

The State of Utah mandates a general obligation limit to 4 percent of the City's total assessed value of \$8,731,768

Economic Factors

At June 30, 2005, the unemployment rate for the State of Utah was 4.6 percent, down from 5.3 percent in 2004. The unemployment rate for Weber County in 2005 was 5.0 percent, down from 5.6 percent in 2004.

(Source: US Census Bureau)

For new growth, 15 building permits were issued. Two commercial permits were issued with an estimated construction value of \$676,287 and 13 residential permits were issued with an estimated construction value of \$1,419,263. The number of commercial building permits issued is expected to increase over the next 2 -3 years then expected to sharply decline as the City becomes closer to being built-out. Residential building permits issued are expected to follow a similar pattern.

The rates and fees for utility services experienced a slight increase. All other rates and fees have remained relatively constant. The City anticipates that slight increases will continue in futures years for users of the City's utility services in order to provide adequate working capital necessary to main the water, sewer, and storm drain system, pay debt service, and comply with rate-covenant requirements contained in the City's revenue bond issue.

OTHER MATTERS

Current and Future Projects

The City's Capital Facilities Plan includes a comprehensive assessment on existing facilities and a plan enacted to renovate, repair, and replace existing deficiencies throughout the City. The Plan projects an 18 year completion date beginning in 2004 through 2022 in effort to address budgeting issues more effectively. The Plan focuses on the following areas: Road Seal Projects, City Fleet Replacement, Buildings & Miscellaneous Projects, Culinary Water Projects, Park Projects, Road Overlay Projects, Road Reconstruction Projects, Storm Drain Projects, and Sanitary Sewer Projects. Through the budgeting process, projects will be identified and scheduled for completion as funding becomes available. At June 30, 2005, significant construction in progress include 300 west road reconstruction from 4400 south to 4800 south at an estimated project cost of approximately \$1,000,000.

REQUESTS FOR INFORMATION

This financial report is designed to provide its readers with a general overview of the City's financial performance and condition and to demonstrate the City's accountability for the money it receives and disseminates. Questions concerning any of the information in this report or any other matters related to the City's finances should be addressed to: Washington Terrace Municipal Corporation, Finance and Budget Department, 5249 South 400 East, Washington Terrace City, Utah 84405.

THE CITY OF WASHINGTON TERRACE

Statement of Net Assets

June 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,259,171	168,131	\$ 2,427,302
Accounts receivable - net	48,934	225,490	274,424
Due from other governmental units	169,046	-	169,046
Prepaid expenses	321,691	-	321,691
Inventory	-	36,504	36,504
Deferred charges- net	321,389	69,551	390,940
Capital assets (net of accumulated depreciation)	28,307,961	7,255,523	35,563,484
Total assets	31,428,192	7,755,199	39,183,391
LIABILITIES			
Accounts payable and accrued liabilities	246,845	76,644	323,489
Accrued liabilities	43,790	-	43,790
Deposits	19,750	-	19,750
Noncurrent liabilities due within one year	530,338	135,000	665,338
Noncurrent liabilities due in more than one year	7,373,391	2,965,000	10,338,391
Compensated absences	51,140	-	51,140
Total liabilities	8,265,254	3,176,644	11,441,898
NET ASSETS			
Invested in capital assets, net of related debt	20,404,232	4,155,523	24,559,755
Restricted for roads	113,837	-	113,837
Restricted for impact fees	176,265	-	176,265
Unrestricted	2,468,604	423,032	2,891,636
Total net assets	\$ 23,162,938	4,578,555	\$ 27,741,493

THE CITY OF WASHINGTON TERRACE
Statement of Activities
For the Year Ended June 30, 2004

Function/Programs	Program Revenues			Net (Expense) Rev & Chgs in Net Assets		
	Expenses	Charges for		Governmental Activities	Primary Government	
		Services	Operating Grants and Contributions		Business-type Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 732,372	67,966	17,024	350,848	(296,534)	-
Public safety	1,065,717	255,473	5,714	-	(804,530)	-
Highways and public works	1,268,005	-	218,347	-	(1,049,658)	-
Parks and recreation	127,172	73,273	-	-	(53,899)	-
Interest on long-term debt	427,949	-	-	-	(427,949)	-
Total governmental activities	3,621,215	396,712	241,085	350,848	(2,632,570)	-
Business-type activities:						
Enterprise fund	1,096,464	1,805,033	-	-	708,569	708,569
Total business-type activities	1,096,464	1,805,033	-	-	708,569	708,569
Total primary government	\$ 4,717,679	2,201,745	241,085	350,848	(2,632,570)	(1,924,001)
General revenues:						
Property taxes				1,324,695	-	1,324,695
General sales and use tax				641,925	-	641,925
Franchise tax				520,298	-	520,298
Investment earnings				60,793	2,902	63,695
Miscellaneous				195,155	-	195,155
Gain (loss) on sale of assets				(2,744)	-	-
Transfers				589,975	(589,975)	-
Total general revenues				3,330,097	(587,073)	2,745,768
Change in net assets				697,527	121,496	821,767
Net assets - beginning (as restated)				22,465,411	4,457,059	26,922,470
Net assets - ending				\$ 23,162,938	4,578,555	27,744,237

The notes to the financial statements are an integral part of this statement.

THE CITY OF WASHINGTON TERRACE

Balance Sheet

Governmental Funds

For the Year Ended June 30, 2005

	General Fund	Redevelopment Agency	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 429,787	165,588	1,445,070	218,726	\$2,259,171
Accounts receivable	48,934				48,934
Due from other governmental units	169,046	-	-	-	169,046
Prepaid expense	321,691	-	-	-	321,691
Total assets	<u>969,458</u>	<u>165,588</u>	<u>1,445,070</u>	<u>218,726</u>	<u>2,798,842</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	246,845	-	-	-	246,845
Accrued liabilities	43,790	-	-	-	43,790
Deposits	19,750	-	-	-	19,750
Total liabilities	<u>310,385</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>310,385</u>
Fund Balances:					
Fund balances reserved for:					
Class "C" roads	113,837	-	-	-	113,837
Impact fees	-	-	-	176,265	176,265
Unreserved fund balance	545,236	165,588	1,445,070	42,461	2,198,355
Total fund balances	<u>659,073</u>	<u>165,588</u>	<u>1,445,070</u>	<u>218,726</u>	<u>2,488,457</u>
Total liabilities and fund balances	<u>\$ 969,458</u>	<u>165,588</u>	<u>1,445,070</u>	<u>218,726</u>	<u>\$2,798,842</u>

THE CITY OF WASHINGTON TERRACE
Balance Sheet Reconciliation to Statement of Net Assets
June 30, 2005

Total fund balances - governmental fund types: \$ 2,488,457

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 28,307,961

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The detail is as follows:

Bonds payable	(7,861,950)	
Less: Deferred charge on refunding (to be amortized as interest expense)	246,743	
Less: Deferred charge for issuance costs (to be amortized over life of debt)	74,646	
Capital lease payable	(41,779)	
Compensated absences	(51,140)	(7,633,480)
	<u> </u>	<u> </u>

Net assets of governmental activities \$ 23,162,938

THE CITY OF WASHINGTON TERRACE
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General Fund	Redevelopment Agency	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$1,657,080	426,284	-	403,554	2,486,918
Licenses and permits	129,173	-	-	-	129,173
Intergovernmental	241,085	-	-	-	241,085
Charges for services	677,018	-	-	-	677,018
Impact fees	-	-	-	62,078	62,078
Fines and forfeitures	194,266	-	-	-	194,266
Miscellaneous revenue	25,555	-	181,675	-	207,230
Total revenues	<u>2,924,177</u>	<u>426,284</u>	<u>181,675</u>	<u>465,632</u>	<u>3,997,768</u>
EXPENDITURES					
Current:					
General government	722,370	75,041	2,688	-	800,099
Public safety	1,112,176	-	-	-	1,112,176
Highways and public works	597,768	37,525	20,547	-	655,840
Parks and recreation	113,844	-	39,879	-	153,723
Capital expenditures	-	568,932	481,036	-	1,049,968
Debt service:					
Principal retirement	-	163,017	580,000	180,000	923,017
Interest and fiscal charges	-	107,158	87,737	230,282	425,177
Bond issuance costs	-	-	-	75,485	75,485
Total expenditures	<u>2,546,158</u>	<u>951,673</u>	<u>1,211,887</u>	<u>485,767</u>	<u>5,120,000</u>
Excess revenues over (under) expenditures	<u>378,019</u>	<u>(525,389)</u>	<u>(1,030,212)</u>	<u>(20,135)</u>	<u>(1,122,232)</u>
OTHER FINANCING SOURCES(USES)					
Interest income	25,701	16,059	19,033	-	60,793
Bond proceeds	-	-	-	3,445,000	3,445,000
Payment to refunded bond escrow agent	-	-	-	(3,369,515)	(3,369,515)
Capital lease	53,588	-	-	-	53,588
Transfers in	-	-	874,155	-	874,155
Transfers out	(874,155)	-	-	-	(874,155)
Total other financing sources and uses	<u>(794,866)</u>	<u>16,059</u>	<u>893,188</u>	<u>75,485</u>	<u>189,866</u>
Excess of revs and other sources over (under) expend and other uses	<u>(416,847)</u>	<u>(509,330)</u>	<u>(137,024)</u>	<u>55,350</u>	<u>(932,366)</u>
Fund balances - beginning of year	<u>1,075,920</u>	<u>674,918</u>	<u>1,582,094</u>	<u>163,376</u>	<u>3,496,308</u>
Fund balances - end of year	<u>\$ 659,073</u>	<u>165,588</u>	<u>1,445,070</u>	<u>218,726</u>	<u>2,563,942</u>

THE CITY OF WASHINGTON TERRACE
Statement of Changes Reconciliation to Statement of Activities
For the Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ (932,366)
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Governmental funds report capital outlays as expenditures (1,198,591). However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense (714,773). This is the amount by which capital outlays exceeded depreciation in the current period.	483,818
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In the statement of activities, only the <i>gain</i> on the sale of assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of capital assets sold.	(14,819)
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Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	350,848
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Compensated absences	7,904	
Amortization of deferred charge on refunding	(2,772)	
Amortization of issuance costs	(839)	
		4,293

The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

Neither transaction, however, has any effect on net assets.

Issuance of general obligation bonds	(3,445,000)	
Capital lease financing	(53,588)	
Principal repayments	923,017	
Payment on capital lease	11,809	
Payment to escrow agent for refunding	3,369,515	
		805,753

Change in net assets of governmental activities	\$ 697,527
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THE CITY OF WASHINGTON TERRACE
Statement of Net Assets
Proprietary Funds
June 30, 2005
With Comparative Totals for 2004

	Business-type activities	
	June 30, 2005	June 30, 2004
	Enterprise Fund	Enterprise Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 168,131	308,804
Accounts receivable - net	225,490	167,594
Inventory	36,504	29,024
Total current assets	<u>430,125</u>	<u>505,422</u>
Noncurrent assets:		
Land	116,813	116,813
Construction work in process	348,517	-
Buildings	11,364	11,364
Capital improvements	8,148,941	8,148,941
Machinery and equipment	851,184	840,684
Less: Accumulated depreciation	(2,221,296)	(2,010,062)
Bond issue costs	69,551	73,897
Total noncurrent assets	<u>7,325,074</u>	<u>7,181,637</u>
Total assets	<u>7,755,199</u>	<u>7,687,059</u>
LIABILITIES		
Current liabilities:		
Accounts payable	76,644	-
Total current liabilities	<u>76,644</u>	<u>-</u>
Noncurrent liabilities:		
Bonds payable	3,100,000	3,230,000
Total noncurrent liabilities	<u>3,100,000</u>	<u>3,230,000</u>
Total liabilities	<u>3,176,644</u>	<u>3,230,000</u>
NET ASSETS		
Invested in capital assets, net of related debt	4,155,523	5,887,802
Unrestricted	423,032	(1,430,743)
Total net assets	<u>\$ 4,578,555</u>	<u>4,457,059</u>

THE CITY OF WASHINGTON TERRACE
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005
With Comparative Totals for 2004

	Business-type activities	
	June 30, 2005	38,168
	Enterprise Fund	Enterprise Fund
OPERATING REVENUES		
Charges for services		
Water	\$ 609,022	603,184
Sewer	449,689	441,140
Garbage	439,503	418,120
Storm drain	158,259	158,432
Motor pool	-	-
Connection fees	9,316	12,787
Late fees	24,366	38,932
Miscellaneous	114,878	71,121
Total operating revenues	<u>1,805,033</u>	<u>1,743,716</u>
OPERATING EXPENSES		
Utilities	2,058	1,949
Printing	12,968	11,786
Special department supplies	6,707	51,381
Water fees	145,608	-
Sewer fees	137,109	166,754
Garbage fees	223,789	120,574
Professional services	32,439	148,029
Administrative fees	625,644	22,408
Depreciation and amortization	215,580	539,226
Special projects	124,751	175,275
Miscellaneous	5,230	15,367
Total operating expenses	<u>1,531,883</u>	<u>1,252,749</u>
Operating income	<u>273,150</u>	<u>490,967</u>
NONOPERATING REVENUE (EXPENSES)		
Interest revenue	2,902	3,709
Interest expense	(154,556)	(163,301)
Total nonoperating revenues (expenses)	<u>(151,654)</u>	<u>(159,592)</u>
Change in net assets	121,496	483,277
Total net assets - beginning	4,457,059	3,973,782
Total net assets - ending	<u>\$ 4,578,555</u>	<u>4,457,059</u>

THE CITY OF WASHINGTON TERRACE
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005
With Comparative Totals for 2004

	Business-type activities	
	June 30, 2005	38,168
	Enterprise Fund	Enterprise Fund
Cash Flows From Operating Activities		
Receipts from customers	\$ 1,747,137	1,725,077
Payments to suppliers	(621,495)	(538,436)
Payments for administration	(625,644)	(539,226)
Net cash provided (used) by operating activities	499,998	647,415
Cash Flows From Noncapital Financing Activities		
Transfers to other funds	-	(11,694)
Transfers from other funds	-	163,596
Net cash provided (used) by noncapital financing activities	-	151,902
Cash Flows From Capital and Related Financing Activities		
Purchases of capital assets	(359,017)	(568,681)
Principal paid on capital debt	(130,000)	(125,000)
Interest paid on capital debt	(154,556)	(163,301)
Net cash provided (used) by capital and related financing activities	(643,573)	(856,982)
Cash Flows From Investing Activities		
Interest and dividends received	2,902	3,709
Net cash provided (used) by investing activities	2,902	3,709
Net increase (decrease) in cash and cash equivalents	(140,673)	(53,956)
Cash and cash equivalents - beginning	308,804	362,760
Cash and cash equivalents (deficit) - end	168,131	308,804
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income	273,150	490,967
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization expense	215,580	179,621
(Inc)/decrease in accounts rec.	(57,896)	(18,639)
(Inc)/decrease in inventory	(7,480)	-
Increase (decr.) in accounts payable	76,644	(4,534)
Total adjustments	226,848	156,448
Net cash provided (used) by operating activities	\$ 499,998	647,415

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2005

Note 1 - Summary of Significant Accounting Policies

Washington Terrace City (City) was incorporated on December 12, 1958. The City operates under a mayor council form of government and provides the following services as authorized by its character: public safety (police, fire, inspection and animal control), streets and highways, garbage collection, water and sewer, parks and recreation and general administrative services. The financial statements of Washington Terrace City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present Washington Terrace City (the primary government) and its component units. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationships with the City.

Blended Component Unit

Washington Terrace Redevelopment Agency (RDA). - RDA is governed by the Mayor and City Council. Although it is legally separate from the City, the RDA is reported as if it were part of the primary government because its sole purpose is to redevelop areas within the City thereby generating additional property tax and sales tax.

B. Government-wide and Fund Financial Statements

The City's basic financial statements consist of both government-wide statements and fund statements. The government-wide statements focus on the City as a whole, while the fund statements focus on individual funds.

The government-wide statements present information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The effects of inter-fund activity have been eliminated from the government-wide statements except for the residual amounts due between governmental and business-type activities.

The Statement of Net Assets presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed upon them are either externally imposed or are imposed by constitutional provisions or enabling legislation. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. The City does not allocate general government (indirect) expenses to other functions. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2005

Note 1 - Summary of Significant Accounting Policies - Continued

B. Government-wide And Fund Financial Statements - Continued

Fund Financial Statements

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and statutory mandate. The various funds are grouped, in the financial statements in this report, into fund types and categories as follows:

Governmental Fund Types:

General Fund - The General Fund is used to account for all financial resources of the City not accounted for by a separate, specialized fund.

Special Revenue Funds - The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The City operates the Impact Fee Fund and a Redevelopment Agency Fund as special revenue funds.

Debt Service Funds - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs (other than those of the proprietary funds).

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources used for the acquisition or construction of major capital improvements (other than those financed by proprietary funds.)

Proprietary Fund Types:

Enterprise Fund - The Enterprise Fund is used to account for operations that (a) are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes. The City operates the water, sewer, storm drain, and garbage activities in the enterprise funds.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

All governmental funds are accounted using a current resource measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2005

Note 1 - Summary of Significant Accounting Policies – Continued

C. Measurement Focus and Basis of Accounting - Continued

All proprietary funds are accounted for using a current resource measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases and decreases in net total assets.

All governmental funds are accounted for using the modified accrual basis of accounting. That is, revenues are recognized when they become measurable and available as net current assets. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued in the individual funds because the current portion of these items cannot be reasonably estimated and (2) principal and interest on general long-term debt which is recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. The City applies only the applicable FASB pronouncements issued on or before November 30, 1989.

D. Budgets

Annual budgets are prepared and adopted in accordance with the "Uniform Fiscal Procedures Act of Utah" by the City Council on or before June 15 for the following fiscal year which begins on July 1. Budgets may be increased by resolution of the City Council at any time during the year, following a public hearing. Budgets are prepared in line-item detail; however, budget amendments by resolution are generally required only if the fund exceeds its total budget appropriation. Annual budgets are adopted for all governmental fund types. All annual appropriations lapse at the fiscal year end.

Utah State allows for any undesignated fund balances in excess of 5% of total revenue of the general fund to be utilized for budget purposes. The law also allows for the accumulation of a fund balance in the general fund in an amount equal to 18% of the total estimated revenue of the general fund. In the event that the fund balance, at the end of the fiscal year, is in excess of that allowed, the City has one year to determine an appropriate use and then the excess must be included as an available resource in the general fund budget.

E. Capital Assets

Capital assets, which include land, buildings, property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2005

Note 1 - Summary of Significant Accounting Policies – Continued

E. Capital Assets - Continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets are carried at cost or estimated historical cost. Depreciation of these assets is computed by use of the straight-line method over their estimated useful lives as follows:

Buildings and improvements	20-25 Years
Sewer collection system	50 Years
Water distribution systems	50 Years
Infrastructure and improvements	20-40 Years
Machinery and equipment	5-10 Years
Other improvements	10-40 Years

F. Reservation of Fund Balance/Retained Earnings

The City is required to reserve part of the fund balance of the general fund to account for the unexpected portions of certain types of revenue. The reserved fund balance is for class "C" road revenue. The nonmajor funds have reserved fund balance for impact fees collected which have not been spent on project completion.

G. Cash and Cash Equivalents

Cash includes amounts in demand deposits as well as short-term investments with a maturity date of three months or less when acquired by the city.

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 – Accounting Changes and Restatements

The City of Washington Terrace has implemented GASB Statement 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3* one year earlier than required. As a result, the disclosures in Note 3 related to the City's deposit and investment risks have been changed.

Note 3 - Deposits and Investments

Deposits and investments for the City are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the City's exposure to various risks related to its cash management activities.

A. Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of City funds to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. The City's deposits in the bank in excess of the insured amount are uninsured and are not collateralized,

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2005

Note 3 - Deposits and Investments - Continued

nor do state statutes require them to be. The City's bank balances at June 30, 2005 were \$(68,965), of which \$0 were uninsured and uncollateralized.

Investments. Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City does not have a formal for custodial credit risk of investments. The City currently has no investments.

B. Credit Risk

Credit risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations; and shares in a money market fund as defined in the Act. The City is also authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares. Following are the City's investments at June 30, 2005:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Quality Ratings</u>
PTIF Investments	<u>\$ 1,870,210</u>	54 days*	not rated
Total	<u>\$ 8,100,850</u>		

* Weighted-average maturity

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The City manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the City's investments are noted in the previous table.

Note 4 - Accounts Receivable

Accounts receivables are recorded net of the allowance for doubtful accounts of \$13,000 in the enterprise fund.

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2005

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 7,906,221	398,331	-	8,304,552
Total	<u>7,906,221</u>	<u>398,331</u>	<u>-</u>	<u>8,304,552</u>
Capital assets, being depreciated:				
Buildings	1,675,233	448,506	(176,482)	1,947,257
Furniture and fixtures	10,347	-	-	10,347
Machinery and equipment	603,063	72,048	(113,197)	561,914
Improvements	961,565	35,785	(18,427)	978,923
Infrastructure	<u>20,115,667</u>	<u>594,769</u>	<u>-</u>	<u>20,710,436</u>
Total	<u>23,365,875</u>	<u>1,151,108</u>	<u>(308,106)</u>	<u>24,208,877</u>
Less accumulated depreciation for:				
Buildings	(601,318)	(34,810)	161,662	(474,466)
Machinery and equipment	(494,068)	(46,310)	113,198	(427,180)
Improvements	(166,281)	(13,729)	18,427	(161,583)
Infrastructure	<u>(2,522,315)</u>	<u>(619,924)</u>	<u>-</u>	<u>(3,142,239)</u>
Total	<u>(3,783,982)</u>	<u>(714,773)</u>	<u>293,287</u>	<u>(4,205,468)</u>
Capital assets, being depreciated, net	<u>19,581,893</u>	<u>436,335</u>	<u>(14,819)</u>	<u>20,003,409</u>
Governmental activities capital assets, net	<u>27,488,114</u>	<u>2,179,666</u>	<u>(14,819)</u>	<u>28,307,961</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	116,812	-	-	116,812
Construction in process	-	348,517	-	348,517
Total	<u>116,812</u>	<u>348,517</u>	<u>-</u>	<u>465,329</u>
Capital assets, being depreciated:				
Buildings	11,364	-	-	11,364
Machinery and equipment	840,685	10,500	-	851,185
Improvements	<u>8,148,941</u>	<u>-</u>	<u>-</u>	<u>8,148,941</u>
Total	<u>9,000,990</u>	<u>10,500</u>	<u>-</u>	<u>9,011,490</u>
Less accumulated depreciation for:				
Buildings	(10,796)	(284)	-	(11,080)
Machinery and equipment	(575,130)	(44,848)	-	(619,978)
Improvements	<u>(1,424,136)</u>	<u>(166,102)</u>	<u>-</u>	<u>(1,590,238)</u>
Total accumulated depreciation	<u>(2,010,062)</u>	<u>(211,234)</u>	<u>-</u>	<u>(2,221,296)</u>
Capital assets, being depreciated, net	<u>6,990,928</u>	<u>(200,734)</u>	<u>-</u>	<u>6,790,194</u>
Business-type activities capital assets, net	\$ <u>7,107,740</u>	<u>147,783</u>	<u>-</u>	<u>7,255,523</u>

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2005

Note 5 - Capital Assets - Continued

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:

General government	\$ 29,332
Public safety	30,242
Highways and public works	645,965
Parks and recreation	<u>9,234</u>
Total depreciation expense - governmental activities	<u>714,773</u>

Business-type activities:

Enterprise fund	<u>211,234</u>
Total depreciation expense - business-type activities	<u>\$ 211,234</u>

Note 6 - Land Contribution

One 2.02 parcel of commercial land was donated to the City by a private developer. The value of the land donation totaled \$350,848.

Note 7- Compensated Absences

Accumulated unpaid vacation, sick pay and other employee benefit amounts are accrued when incurred in proprietary funds (using the accrual basis of accounting). In the governmental funds (using the modified accrual basis of accounting) only the current portion of the liability is reported in the fund. The remainder of the liability is reported in the general long-term debt account group in accordance with the Governmental Accounting Standards.

Note 8 - Retirement Plans

Plan Description

Washington Terrace City contributes to the Local Governmental Contributory Retirement System and Local Governmental Non-contributory Retirement System. Public Safety Retirement System for employers with Social Security coverage which are for employers with Social Security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Non-contributory Retirement System and Public Safety Retirement System for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems at 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2005

Note 8 - Retirement Plans - Continued

Funding Policy

In the Local Governmental Non-contributory Retirement System Washington Terrace City is required to contribute 11.09% of their annual-covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Washington Terrace City contributions for the Non-contributory Retirement System for June 30, 2005, 2004 and 2003 were \$63,390, \$54,898 and \$50,070 respectively, for the Public Safety Retirement System the contributions for June 30, 2005, 2004 and 2003 were \$0, \$0, and \$316 respectively, for the Non-contributory Public Safety Retirement System the contributions for June 30, 2005, 2004 and 2003 were \$0, \$0, and \$16,375 respectively, and for the 401(K) Plan the contributions for June 30, 2005, 2004 and 2003 were \$28,321, \$34,123 and \$27,506 respectively. The contributions were equal to the required contributions for each year.

Note 9 - Deferred Compensation Plan

The City maintains a section 457 deferred compensation plan that is administered through the Utah State Retirement System. The amount of employee contributions to the deferred compensation plan at the year end was \$7,380, \$18,171 and \$3,750 for the years ended June 30, 2005, 2004, and 2003.

Note 10 - Inter-fund Transfers

Transfers were made which will not be repaid. Such amounts for the fiscal year ended June 30, 2005 were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Activities		
General	\$ -	\$ 874,155
Capital Projects	<u>847,155</u>	<u>-</u>
	<u>\$ 847,155</u>	<u>\$ 874,155</u>

The purpose of the interfund transfers is to meet the City's ongoing need for cash. In addition to the operating transfers, the General Fund charged \$665,823 to the proprietary fund for personnel and administrative services during the year.

Note 11 - Budgetary Accounting and Tax Calendar

The City Council can amend the budget to any extent, provided the budgeted expenditures do not exceed revenues and appropriated fund balances. Budgets are required by the State of Utah for the general, special revenue, debt service and capital improvement funds. The legal level of control required by the State of Utah is at the department level. The City's budget is a financial plan of all estimated revenues and all appropriations for expenditures. Revenues and expenditures must balance.

The budget is prepared sometime between the 1st of March and the 1st of May. A tentative budget is presented by the City Manager to the City Council by the first regularly scheduled council meeting in May. The tentative budget is reviewed and tentatively adopted by the Council no later than June 4th. The tentative budget is a public record and is available for inspection at the City Finance Department and the City Recorder's Office for at least ten days prior to adoption of the final budget. Notice of a public hearing on

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2005

Note 11 - Budgetary Accounting and Tax Calendar - Continued

adoption on the final budget is published seven days prior to the public hearing. The public hearing on the tentatively adopted budget is held no later than June 15th. Final adjustments are made to the tentative budget by the Council after the public hearing. The final budget is adopted by ordinance before June 15th and a copy of the budget certified by the Budget Officer is filed with the State Auditor within thirty days of adoption.

In connection with budget adoption an annual tax ordinance establishing the tax rate is adopted before June 22nd and the City Recorder is to certify the tax rate to the County Auditor before June 22nd. Budgets for the general, special revenue, debt service and capital projects funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). The above procedures are authorized by the Utah Code Sections 10-6-109 through 10-6-135.

Note 12 - Redevelopment Agency

The Redevelopment Agency of the City was established to further public purposes in the redevelopment of certain city areas. The tax increment collected by the agency in the amount of \$426,284 was derived from taxpayers within the Redevelopment Area. The increment has been allocated for capital improvements and debt service on the 1999 Redevelopment Bonds. The outstanding principal amount of debt issued for this project at June 30, 2005 was \$2,116,950.

Note 13 - Contingent Liabilities

Amounts received or receivables from grantor agencies are subject to audit and adjustment by those grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial. The City is also involved in various claims that should be covered by insurance.

Note 14 - Construction commitments

The City has active construction projects as of June 30, 2005. The projects include construction of roads and utility system upgrades.

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>	<u>Estimated Completion</u>
300 West	\$ 39,483	949,316	Nov 2005
Wright Park	35,785	17,919	Aug 2005
300 W Riverdale Rd	14,738	105,262	June 2006
Golf course sewer outfall	315,775	49,225	Aug 2005
Vanleeuwen park	\$ 4,357	80,643	Nov 2005

Note 15 - Risk Management

Washington Terrace City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage. The City carries \$2,000,000 of liability coverage.

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2005

Note 16 – Capital Leases

The government has entered into a lease agreement as lessee for financing the acquisition of two vehicles for the fire department. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Asset:	
Vehicles	\$ 53,588
Less: Accumulated depreciation	<u>7,502</u>
Total	\$ 46,086

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2005, were as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2006	\$ 11,809
2007	11,809
2008	11,809
2009	<u>11,809</u>
Total minimum lease payments	47,236
Less: amount representing interest	<u>(5,459)</u>
Present value of minimum lease payments	\$ 41,777

Note 17 - Long term Debt

General Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. The original amount of general obligation bonds issued in prior years was \$4,380,000. During the year, general obligation bonds totaling \$3,445,000 were issued to refund a general obligation bond.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	4.55 - 5.60%	\$ 1,260,000
Governmental activities – refunding	2.10 - 4.10%	<u>3,445,000</u>
		\$ <u>4,705,000</u>

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2005

Note 17 – Long-term Debt – Continued

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30	Principal	Interest	Total Debt Service
2006	\$ 245,000	149,806	\$ 394,806
2007	220,000	174,910	394,910
2008	230,000	165,009	395,009
2009	245,000	154,425	399,425
2010	255,000	143,001	398,001
2011-2015	1,425,000	550,743	1,975,743
2016-2020	1,705,000	254,183	1,959,183
2021	380,000	7,790	387,790
	<u>\$ 4,705,000</u>	<u>1,599,867</u>	<u>\$ 6,304,867</u>

Special assessment bonds

The special assessment debt provides funds for the infrastructure in a special improvement district. These bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government must provide resources to cover the deficiency until other resources, for example, foreclosure proceeds, are received. The bonds have a stated rate of interest of 4.6-5.95 percent and are payable in installments of principal over the next 9 years

Annual debt service requirements to maturity for special assessment bonds are as follows:

Year Ending June 30	Principal	Interest	Total Debt Service
2006	\$ 35,000	56,778	\$ 91,778
2007	40,000	55,237	95,237
2008	45,000	53,398	98,398
2009	45,000	51,260	96,260
2010	45,000	49,078	94,078
2011-2015	280,000	206,425	486,425
2016-2020	370,000	120,582	490,582
2021-2022	180,000	16,362	196,362
	<u>\$ 1,040,000</u>	<u>\$609,120</u>	<u>\$ 1,649,120</u>

Revenue bonds

The government also issued bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. No amounts outstanding at the end of the current fiscal year related to bonds issued in prior years. During the year no revenue bonds were issued. Revenue bonds outstanding at year end are as follows:

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2005

Note 17 – Long-term Debt – Continued

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Water, Sewer and Refuse Collection	4.0 - 5.25%	\$ 3,100,000
Redevelopment Tax Increment	4.7%	<u>2,116,949</u>
		<u>\$ 5,216,949</u>

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	\$ 305,679	249,126	\$ 554,804
2007	318,700	235,704	554,404
2008	337,098	221,495	558,593
2009	350,892	206,326	557,218
2010	365,099	190,377	555,476
2011-2015	2,099,483	680,501	2,779,984
2016-2020	1,170,000	259,438	1,429,438
2021	<u>270,000</u>	<u>14,175</u>	<u>284,175</u>
	<u>\$ 5,216,950</u>	<u>2,057,143</u>	<u>\$ 7,274,092</u>

Advance and current refundings

The government issued \$3,445,000 of general obligation refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$3,120,000 of general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price less fees exceeded the net carrying amount of the old debt by \$249,515. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt which is shorter than the life of the new debt issued. This advance refunding was undertaken to reduce the total debt service payments over the next 15 years by \$187,116 and resulted in an economic gain of \$323,281.

Changes in Long-term Debt

During the year ended June 30, 2005 the following activity occurred in liabilities reported as long-term:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bond payable	\$ 8,459,966	3,445,000	(4,043,016)	7,861,950	\$ 520,679
Compensated absences	<u>59,043</u>	<u>-</u>	<u>(7,903)</u>	<u>51,140</u>	<u>-</u>
Total	<u>8,519,009</u>	<u>3,445,000</u>	<u>(4,050,919)</u>	<u>7,913,090</u>	<u>520,679</u>
Business-type activities:					
Bond payable	<u>\$ 3,230,000</u>	<u>-</u>	<u>130,000</u>	<u>3,100,000</u>	<u>\$ 135,000</u>

THE CITY OF WASHINGTON TERRACE
Notes to the Financial Statements
June 30, 2005

Note 18 - Budget and Budgetary Control

As more fully explained in Note 1 of the Notes to Financial Statements, annual budgets are prepared and adopted before June 22 for the fiscal year commencing the following July 1, in accordance with the Uniform Fiscal Procedures Act for Utah Cities. State law requires budgeted revenues to equal budgeted expenditures, and legal control is exercised at the department level. Once a budget has been adopted, it remains in effect until it has been formally revised. Budgets for the general fund, special revenue, and capital projects funds are legally required and prepared and adopted on the modified accrual basis of accounting. Therefore, no reconciliation between budgetary schedules and the GAAP statements is required.

The Budgetary Comparison schedules presented in this section of the report are for the City's general fund and major special revenue funds. Original budgets represent the revenue estimates and spending authority authorized by the City Council prior to July 1. Final budgets represent the original budget amounts plus any amendments made to the budget during the year by the City Council through formal resolution. Final budgets do not include unexpected balances from the prior year because such balances automatically lapse to unreserved fund balance at the end of each year.

Note 19 - Prior Period Adjustment

The General Fund beginning fund balance was restated as a result of a prior period adjustment. The adjustment was made to accrue B&C road allocation monies and sales taxes received in the fiscal year ended June 30, 2005 that were actually for the fiscal year ended June 30, 2004.

General Fund	
Fund balance at June 30, 2004 as previously reported	\$ 886,283
Prior period adjustment to accrue taxes and grants	<u>189,637</u>
Beginning fund balance as restated	<u>\$ 1,075,920</u>

THE CITY OF WASHINGTON TERRACE
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund - Budget and Actual
For the Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
TAXES				
Property tax - real estate	\$ 326,921	336,623	336,646	23
Property tax - vehicles	153,678	115,000	138,324	23,324
Delinquent property taxes	14,335	17,445	19,887	2,442
Sales and use taxes	654,412	649,412	641,925	(7,487)
Franchise taxes	451,200	469,700	520,298	50,598
Total Taxes	<u>1,600,546</u>	<u>1,588,180</u>	<u>1,657,080</u>	<u>68,900</u>
LICENSES AND PERMITS				
Business licenses	28,560	28,560	28,410	(150)
Building permits	35,755	36,415	38,606	2,191
Planning fees	4,000	950	950	-
Fire training courses	54,000	54,000	54,630	630
Animal licenses	9,373	6,550	6,577	27
Total Licenses and Permits	<u>131,688</u>	<u>126,475</u>	<u>129,173</u>	<u>2,698</u>
INTERGOVERNMENTAL REVENUE				
Class "C" roads	275,767	254,615	218,347	(36,268)
State liquor fund allotment	3,800	5,713	5,714	1
Grants	15,900	17,063	17,024	(39)
Total Intergovernmental Revenue	<u>295,467</u>	<u>277,391</u>	<u>241,085</u>	<u>(36,306)</u>
CHARGES FOR SERVICES				
Administrative fee - enterprise fund/RDA	688,497	688,497	665,823	(22,674)
Recreation fees	19,400	11,740	11,195	(545)
Total Charges for Services	<u>707,897</u>	<u>700,237</u>	<u>677,018</u>	<u>(23,219)</u>
FINES AND FORFEITURES	<u>135,062</u>	<u>197,000</u>	<u>194,266</u>	<u>-</u>
MISCELLANEOUS				
Interest	24,000	24,000	25,701	1,701
Other	19,764	26,000	25,555	(445)
Total Miscellaneous	<u>43,764</u>	<u>50,000</u>	<u>51,256</u>	<u>1,256</u>
Total Revenues	<u>\$ 2,914,424</u>	<u>2,939,283</u>	<u>2,949,878</u>	<u>13,329</u>

THE CITY OF WASHINGTON TERRACE
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund - Budget and Actual
For the Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
EXPENDITURES				
General Government:				
City Council	\$ 32,070	32,070	31,123	(947)
Municipal Court	101,868	105,101	102,657	(2,444)
Administrative	334,520	338,631	313,520	(25,111)
Treasurer	89,715	106,561	106,174	(387)
Recorder	49,625	50,405	44,128	(6,277)
Leisure services	4,621	46,210	42,186	(4,024)
Non-departmental	71,580	57,202	33,010	(24,192)
General government building	47,221	51,621	49,572	(2,049)
Total General Government	<u>731,220</u>	<u>787,801</u>	<u>722,370</u>	<u>(65,431)</u>
PUBLIC SAFETY				
Police department	743,022	719,237	715,600	(3,637)
Fire department	197,571	211,134	251,113	39,979
Inspection and planning	128,306	108,696	95,920	(12,776)
Animal control	56,903	51,374	49,543	(1,831)
Total Public Safety	<u>1,125,802</u>	<u>1,090,441</u>	<u>1,112,176</u>	<u>21,735</u>
STREETS AND PUBLIC WORKS				
Streets	361,067	158,267	122,231	(36,036)
Public works	493,483	493,483	475,537	(17,946)
Total Highways & Public Works	<u>854,550</u>	<u>651,750</u>	<u>597,768</u>	<u>(53,982)</u>
PARKS AND RECREATION	<u>100,580</u>	<u>112,570</u>	<u>113,844</u>	<u>1,274</u>
Total expenditures - general fund	<u>2,812,152</u>	<u>2,642,562</u>	<u>2,546,158</u>	<u>(96,404)</u>
Excess Revenues Over (Under) Expenditures	<u>102,272</u>	<u>296,721</u>	<u>403,720</u>	<u>109,733</u>
OTHER FINANCING SOURCES (USES)				
Capital leases	-	-	53,588	53,588
Transfers out	(191,972)	(681,280)	(874,155)	(192,875)
Total other financing sources (uses)	<u>(191,972)</u>	<u>(681,280)</u>	<u>(820,567)</u>	<u>(192,875)</u>
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	(89,700)	(384,559)	(416,847)	(83,142)
Fund Balance - Beginning of Year (as restated)	<u>1,075,920</u>	<u>1,075,920</u>	<u>1,075,920</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 986,220</u>	<u>691,361</u>	<u>659,073</u>	<u>(83,142)</u>

THE CITY OF WASHINGTON TERRACE
Statement of Revenues, Expenditures, and Changes in Fund Balances
Redevelopment Agency - Budget and actual
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Property taxes	\$ 880,250	902,930	426,284	(476,646)
Total	880,250	902,930	426,284	(476,646)
EXPENDITURES				
Salaries and benefits	18,090	20,113	20,090	(23)
Professional and technical	77,200	72,000	17,435	(54,565)
Capital expenditures	441,196	1,004,016	568,932	(435,084)
Administrative fee to general fund	75,041	75,041	75,041	-
Debt Service:				
Principal retirement	163,017	163,017	163,017	-
Interest and fiscal charges	107,186	107,186	107,158	(28)
Total	881,730	1,441,373	951,673	(489,700)
Excess of revenues over (under) expenditures	(1,480)	(538,443)	(525,389)	13,054
OTHER FINANCING SOURCES (USES)				
Interest income	1,480	15,158	16,059	901
Total other fin. sources (uses)	1,480	15,158	16,059	901
Excess R&OSO(U)E&OU	-	(523,285)	(509,330)	13,955
Fund Balances - Begin	674,918	674,918	674,918	-
Fund Balances - End	\$ 674,918	151,633	165,588	13,955

THE CITY OF WASHINGTON TERRACE
Statement of Revenues, Expenditures, and Changes in Fund Balances
Capital Projects - Budget and Actual
For the Year Ended June 30, 2005

	Final Budget	Actual	Variance
REVENUES			
Miscellaneous	\$ 181,122	181,675	553
Total	<u>181,122</u>	<u>181,675</u>	<u>553</u>
EXPENDITURES			
General government	1,382	1,881	499
Highways and public works	477,808	20,547	(457,261)
Parks and recreation	105,000	39,879	(65,121)
Administrative fee to general fund	807	807	-
Capital expenditures	483,589	481,036	(2,553)
Debt Service:			
Principal retirement	580,000	580,000	-
Interest and fiscal charges	87,844	87,737	(107)
Total	<u>1,736,430</u>	<u>1,211,887</u>	<u>(524,543)</u>
Excess of revenues over (under) expenditures	<u>(1,555,308)</u>	<u>(1,030,212)</u>	<u>525,096</u>
OTHER FINANCING SOURCES (USES)			
Interest income	18,000	19,033	1,033
Transfers in	681,280	874,155	192,875
Transfers out	-	-	-
Total other fin. sources (uses)	<u>699,280</u>	<u>893,188</u>	<u>192,875</u>
Excess R&OSO(U)E&OU	(856,028)	(137,024)	719,004
Fund Balances - Begin	1,582,094	1,582,094	-
Fund Balances - End	<u>\$ 726,066</u>	<u>1,445,070</u>	<u>719,004</u>

THE CITY OF WASHINGTON TERRACE
Combining Balance Sheet for Nonmajor Governmental Funds
June 30, 2005

	Impact fee Special Revenue	Debt Service	Total Nonmajor Gvtl. Funds
ASSETS			
Cash and cash equivalents	\$ 176,265	42,461	218,726
Total assets	<u>176,265</u>	<u>42,461</u>	<u>218,726</u>
LIABILITIES AND FUND BALANCES			
Fund balances:			
Fund balances reserved for:			
Impact fees	176,265	-	176,265
Unreserved fund balance	-	42,461	42,461
Total fund balances	<u>176,265</u>	<u>42,461</u>	<u>218,726</u>
Total Liabilities and fund bal	<u>\$ 176,265</u>	<u>42,461</u>	<u>218,726</u>

THE CITY OF WASHINGTON TERRACE
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2005

	Impact fee Special Revenue	Debt Service	Total Nonmajor Gvtl. Funds
REVENUES			
Taxes	\$ -	403,554	403,554
Impact fees	62,078	-	62,078
Total	<u>62,078</u>	<u>403,554</u>	<u>465,632</u>
EXPENDITURES			
Debt Service:			
Principal retirement	-	180,000	180,000
Interest and fiscal charges	-	230,282	230,282
Bond issuance costs		75,485	75,485
Total	<u>-</u>	<u>485,767</u>	<u>485,767</u>
Excess of revenues over (under) expenditures	<u>62,078</u>	<u>(82,213)</u>	<u>(20,135)</u>
OTHER FINANCING SOURCES (USES)			
Refunding bonds issued	-	3,445,000	3,445,000
Payment to refunded bond escrow agent	-	(3,369,515)	(3,369,515)
Total other financing sources and uses	<u>-</u>	<u>75,485</u>	<u>75,485</u>
Net change in fund balances	62,078	(6,728)	55,350
Fund Balances - Begin	114,187	49,189	163,376
Fund Balances - End	<u>\$176,265</u>	<u>42,461</u>	<u>218,726</u>

THE CITY OF WASHINGTON TERRACE
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund - Prior Year Comparative
For the Years Ended June 30, 2005 and 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>Variance</u>
TAXES			
Property tax - real estate	\$ 336,646	327,701	(8,945)
Property tax - vehicles	138,324	148,027	9,703
Delinquent property taxes	19,887	22,720	2,833
Sales and use taxes	641,925	619,779	(22,146)
Franchise taxes	520,298	454,791	(65,507)
Total Taxes	<u>1,657,080</u>	<u>1,573,018</u>	<u>(84,062)</u>
LICENSES AND PERMITS			
Business licenses	28,410	29,146	736
Building permits	38,606	41,599	2,993
Planning fees	950	3,413	2,463
Fire training courses	54,630	41,155	(13,475)
Animal licenses	6,577	7,378	801
Total Licenses and Permits	<u>129,173</u>	<u>122,691</u>	<u>(6,482)</u>
INTERGOVERNMENTAL REVENUE			
Class "C" roads	218,347	285,031	66,684
State liquor fund allotment	5,714	5,326	(388)
State grants	-	25,800	25,800
Grants	17,024	7,351	(9,673)
Total Intergovernmental Revenue	<u>241,085</u>	<u>323,508</u>	<u>82,423</u>
CHARGES FOR SERVICES			
Administrative fee - enterprise fund/RDA	665,823	573,680	(92,143)
Recreation fees	11,195	18,004	6,809
Total Charges for Services	<u>677,018</u>	<u>591,684</u>	<u>(85,334)</u>
FINES AND FORFEITURES	<u>194,266</u>	<u>173,909</u>	<u>(20,357)</u>
MISCELLANEOUS			
Interest	25,701	27,531	1,830
Other	25,555	19,337	(6,218)
Total Miscellaneous	<u>51,256</u>	<u>46,868</u>	<u>(4,388)</u>
Total Revenues	<u>\$ 2,949,878</u>	<u>2,831,678</u>	<u>(118,200)</u>

THE CITY OF WASHINGTON TERRACE
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund - Prior Year Comparative
For the Years Ended June 30, 2005 and 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>Variance</u>
EXPENDITURES			
General Government:			
City Council	\$ 31,123	27,630	(3,493)
Municipal Court	102,657	77,986	(24,671)
Administrative	313,520	246,320	(67,200)
Treasurer	106,174	85,965	(20,209)
Recorder	44,128	44,847	719
Leisure services	42,186	40,176	(2,010)
Non-departmental	33,010	44,822	11,812
General government building	49,572	57,623	8,051
Total General Government	<u>722,370</u>	<u>625,369</u>	<u>(97,001)</u>
 PUBLIC SAFETY			
Police department	715,600	690,506	(25,094)
Fire department	251,113	124,112	(127,001)
Inspection and planning	95,920	111,561	15,641
Animal control	49,543	44,363	(5,180)
Total Public Safety	<u>1,112,176</u>	<u>970,542</u>	<u>(141,634)</u>
 STREETS AND PUBLIC WORKS			
Streets	122,231	213,648	91,417
Public works	475,537	464,378	(11,159)
Total Highways & Public Works	<u>597,768</u>	<u>678,026</u>	<u>80,258</u>
 PARKS AND RECREATION	<u>113,844</u>	<u>100,376</u>	<u>(13,468)</u>
 Total expenditures - general fund	<u>2,546,158</u>	<u>2,374,313</u>	<u>(171,845)</u>
 Excess Revenues Over (Under) Expenditures	<u>393,125</u>	<u>116,246</u>	<u>185,174</u>
 OTHER FINANCING SOURCES (USES)			
Capital leases	53,588	-	(53,588)
Transfers out	(684,468)	(115,962)	568,506
Total other financing sources (uses)	<u>(630,880)</u>	<u>(115,962)</u>	<u>514,918</u>
 Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	(237,755)	284	238,039
 Fund Balance - Beginning of Year (as restated)	<u>1,075,920</u>	<u>544,880</u>	<u>(531,040)</u>
 Fund Balance - End of Year	<u>\$ 838,165</u>	<u>545,164</u>	<u>(293,001)</u>

**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards**

Honorable Mayor and City Council
The City of Washington Terrace, Utah

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The City of Washington Terrace as of and for the year ended June 30, 2005, which collectively comprise The City of Washington Terrace's basic financial statements and have issued our report thereon dated November 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered The City of Washington Terrace's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2005-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The City of Washington Terrace's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of The City of Washington Terrace in a separate letter dated November 9, 2005.

This report is intended solely for the information and use of the Mayor, City Council, and State agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Litz & Company, P.C.

November 2, 2005

THE CITY OF WASHINGTON TERRACE
Schedule of Findings and Questioned costs
Year Ended June 30, 2005

Finding relating to financial statement which are required to be reported in accordance with generally accepted government auditing standards.

2005-1 Utility Deposits

Finding:

During our review of the Utility Accounts Receivable, we had several calls of customers whose bills had not been credited for the previous month's payment. We noted that the majority of these calls had dropped off their payment at an outlying location. It came to our attention that these payments had not been picked up by City personnel in a timely fashion.

Recommendation:

To increase controls over the cash receipts of the utilities, the drop box payments should be collected daily. The City currently does not have a written policy on how often these payments are picked up. We recommend that the City have such a policy and that the personnel ensure that these payments are posted to customer accounts in a timely fashion in order to properly reflect the receivable balances.

Response:

The Utility Billing Department has increased controls over the cash receipts of the utilities by collecting the drop box payment daily. The Utility Billing Department will write a policy to incorporate of-site drop box.

THE CITY OF WASHINGTON TERRACE

Status of Prior Year Audit Findings

June 30, 2005

Finding relating to the financial statement which are required to be reported in accordance with generally accepted government auditing standards.

2004-01 Incompatible Functions

Status Resolved for June 30, 2005

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Honorable Mayor and City Council
The City of Washington Terrace, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The City of Washington Terrace, for the year ended June 30, 2005, and have issued our report thereon dated November 2, 2005. As part of our audit, we have audited The City of Washington Terrace's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major state assistance programs from the State of Utah:

B&C Road Funds (Department of Transportation)

The City also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to test work as part of the audit of The City of Washington Terrace's financial statements.)

Liquor Law Enforcement (State Tax Commission)

Our audit also included test work on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt	Special Districts
Cash Management	Other General Issues
Purchasing Requirements	Uniform Building Code Standards
Budgetary Compliance	Truth in Taxation & Property Tax Limits
Liquor Law Enforcement	Justice Court
B&C Road Funds	Impact Fees

The management of The City of Washington Terrace is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed instances of noncompliance with the requirements referred to above, which are outlined in the accompanying Schedule of State Findings and Questioned Costs.

In our opinion The City of Washington Terrace complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

Litz & Company, P.C.

November 2, 2005

THE CITY OF WASHINGTON TERRACE
Schedule of State Findings and Questioned Costs
June 30, 2005

B AND C ROAD FUND REPORT SUBMISSION

Finding: Cities are required to submit a copy of their State Legal Compliance Audit Report to the B and C Administrator, indicating that they are in compliance with the B and C regulations within six months of their 2004 fiscal year end. Due to the extra time needed to convert the report to comply with the GASB 34 reporting model, the audit report was not issued in time to submit this report in a timely manner.

Recommendation: We recommend that the City take the necessary steps to meet this reporting deadline.

Questioned Costs

\$ -0-

UNIFORM BUILDING CODE STANDARDS

Finding: Each municipality is required to file a quarterly report on a form provided by the division indicating the total amount collected for building permits within their jurisdiction. The report is to be mailed to the Division of Occupational and Professional Licensing no later than 30 days following the end of each quarter. One of the quarterly reports in the year was not submitted within the 30 day time frame.

Recommendation: We recommend the City establish the necessary procedures to ensure that these reports are filed in a timely manner.

Questioned Costs

\$ -0-

BUDGETARY COMPLIANCE

Finding: The City exceeded the budgeted expenditures in the Debt Service Fund due to the new bond refinancing. The City refunded a bond and the costs of the bond issuance were not reflected in the budget.

Recommendation: We recommend that the City monitor budgets during the year and limit expenditures to approved budgeted amounts. If additional program funds are needed, proper budget changes should be made.

Questioned Costs

\$ -0-

CASH MANAGEMENT

Finding: According to Utah Code 51-4-2(2) all public funds shall be deposited daily, whenever practicable, but not later than three business days after receipt. In our audit testing, we found that utility payments dropped at the Senior Center were not picked up and deposited on a timely basis.

Recommendation: We recommend that all drop boxes be emptied regularly in order to be in compliance with the three day banking rule as described above.

Questioned Costs

\$ -0-



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Management's Response to Schedule of State Findings and Questioned Costs
June 30, 2005

B AND C ROAD FUND REPORT SUBMISSION

Recommendation: That the City takes the necessary steps to meet this reporting deadline.

Management's Response: Management has taken necessary steps to meet this reporting deadline.

UNIFORM BUILDING CODE STANDARDS

Recommendation: That the City establish the necessary procedures to ensure that these reports are filed in a timely manner.

Management's Response: The Building Department has committed themselves to ensure that the necessary procedures are in place to meet the 30 day filing requirement.

BUDGETARY COMPLIANCE

Recommendation: That the City monitor budgets during the year and limit expenditures to approved budget amounts. If additional program funds are needed, proper budget changes should be made.

Management's Response: The City will ensure that when new debt is issued, all bond issuance expenses have been included in the budget.

CASH MANAGEMENT

Recommendation: That the drop boxes be emptied regularly in order to be in compliance with the three day banking rule as described above.

Management's Response: The Utility Billing Department will recommend a policy to incorporate increased controls and daily payment collections at the off site utility payment drop box.

To provide the citizens of Washington Terrace with essential and innovative services in a timely and cost efficient manner.

Mayor and Council Members

Mayor Mark C. Allen • Mary Johnston • Warren A. Vaughn • Hal Torman • Val Coles • David VandenBosch